

## Message Text

CONFIDENTIAL

PAGE 01 QUITO 01597 101958Z

ACTION EB-08

INFO OCT-01 AF-08 ARA-06 EA-07 EUR-12 NEA-10 ISO-00  
ERDA-05 AID-05 CEA-01 CIAE-00 COME-00 DODE-00 FPC-01  
H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04  
USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07  
FEA-01 PA-01 PRS-01 /133 W  
-----110634Z 111355 /23-12

R 101725Z MAR 77

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 3483

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USINT BAGHDAD

AMCONSUL DHAHRAN

AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 1597

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: GOE ANNOUNCES 13 PERCENT INCREASE IN PETROLEUM PRICE, BUT  
IMPLEMENTATION APPEARS UNCERTAIN

REF: QUITO 1247

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 QUITO 01597 101958Z

1. BEGIN SUMMARY. GOE MINISTER OF NATURAL RESOURCES  
SEMBLANTES ANNOUNCED THAT THE ECUADOREAN STATE PETROLEUM  
COROPRATION (CEPE) WILL SELL CRUDE OIL AT AN EXPORT PRICE  
OF \$13.00 A BARREL--A 13 PERCENT INCREASE (OVER THE  
PREVIOUS "OFFICIAL" PRICE OF \$11.45), IN RESPONSE TO OPEC'S  
CALL FOR A 10 PERCENT INCREASE. HOWEVER, FOR A VARIETY OF

REASONS, IMPLEMENTATION OF THE 13 PERCENT INCREASE IS NOT CERTAIN, AND THE MINISTER'S ANNOUNCEMENT OF IT APPARENTLY REFLECTS CONTINUING GOE INEPTITUDE IN PETROLEUM MATTERS AND A PANICKY RESPONSE TO RECENT MUCH-PUBLICIZED CHARGES THAT GOE OFFICIALS HAVE BEEN RECEIVING PAY-OFFS TO KEEP ECUADOR'S OIL EXPORT PRICES AT LOW LEVELS. END SUMMARY.

2. NEWLY-APPOINTED MINISTER OF NATURAL RESOURCES JAIME SEMBLANTES DECLARED ON MARCH 6 THAT CEPE'S MINIMUM PRICE, EFFECTIVE RETROACTIVELY TO JANUARY 1, IS \$13.00 PER BARREL. HE ASSERTED THAT CEPE HAS IN FACT BEEN SELLING AT MORE THAN \$13.00 PER BARREL SINCE THE BEGINNING OF THE YEAR IN RESPONSE TO OPEC'S CALL FOR A PRICE INCREASE OF 10 PERCENT A BARREL. HE ADDED THAT THE NEW PRICE WOULD BE SUBJECT TO "MARKET CONDITIONS," THUS IMPLYING THAT THE PRICE WOULD BE LOWERED IF IT PROVES TO LEAD TO A SUBSTANTIAL DECLINE IN THE VOLUME OF EXPORT SALES.

3. COMMENT: SEMBLANTES' ANNOUNCEMENT APPEARS TO BE ANOTHER EXAMPLE OF GOE INEPTITUDE IN PETROLEUM PRICING, IN VIEW OF THE FACTS THAT:

(A) FORMER MINISTER OF NATURAL RESOURCES RENE VARGAS ANNOUNCED IN LATE DECEMBER 1976 THAT THE PRICE INCREASE IN RESPONSE TO OPEC'S DECISION WOULD BE \$1.15 PER BARREL, AND VARGAS HAD SUBMITTED TO THE SUPREME COUNCIL A DRAFT DECREE TO INCREASE THE GOE'S INCOME TAX ON OIL EXPORTS BY THE ANNOUNCED \$1.15 PER BARREL. DUE TO OPPOSITION FROM TEXACO--WHICH CLAIMED ECUADOR'S CRUDE WOULD BE OVERPRICED IF THE TAX WERE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 QUITO 01597 101958Z

INCREASED BY THAT AMOUNT--AND THE MODERATING INFLUENCE OF FINANCE MINISTER SANTIAGO SEVILLA, NO ACTION WAS TAKEN ON THAT PRICE INCREASE.

(B) SEMBLANTES' METHOD OF DERIVING THE PRICE INCREASE IS CURIOUS. HE ANNOUNCED THAT THE BASIS OF THE PRICE INCREASE WOULD BE MARKER CRUDE (\$11.51 PER BARREL), WHEREAS PREVIOUS INCREASES HAVE BEEN BASED ON THE OFFICIAL SELLING PRICE FOR ORIENTE CRUDE (RECENTLY \$11.45). THE INCREASE ITSELF HE EXPLAINED AS CONSISTING OF \$1.19 (REPRESENTING THE ABSOLUTE AMOUNT OF THE OPEC-DECLARED 10 PERCENT PRICE INCREASE) PLUS 30 CENTS DIFFERENTIAL (AS PERMITTED UNDER CURRENT OPEC REGULATIONS) FOR QUALITY AND TRANSPORTATION.

(C) SEMBLANTES ANNOUNCED NO INCREASE IN THE GOE INCOME TAX OR ROYALTIES FOR CEPE, SAYING THIS MATTER WAS STILL "UNDER STUDY," AND WE HAVE LEARNED FROM RELIABLE OTHER SOURCES THAT THOSE INCREASES ARE INDEED STILL UNDER STUDY--SEE NEXT PARA. IN OTHER WORDS, THE PRICE INCREASE WAS ANNOUNCED BY SEMBLANTES

PRIOR TO THE CONCLUSION OF THE STUDIES THAT ARE SUPPOSED TO DETERMINE THE AMOUNT (AS WELL AS THE FORM) OF THE PRICE INCREASE.

(D) TEXACO, A 37.5 PERCENT CO-OWNER WITH CEPE IN THE CONSORTIUM, HAS NOT BEEN FORMALLY NOTIFIED (AS OF THREE DAYS AFTER SEMBLANTES' ANNOUNCEMENT) OF ANY INCREASE IN GOVERNMENT TAKE. LOCAL TEXACO MANAGER MIKE MARTINEZ TOLD AN EMBOFF THAT, AS FAR AS TEXACO IS CONCERNED, THE GOE HAS NOT YET IMPLEMENTED THE OPEC PRICE INCREASE. MARTINEZ SAID THE MATTER IS STILL UNDER STUDY BY A COMMISSION COMPOSED OF REPRESENTATIVES OF THE MINISTRY OF FINANCE, THE MINISTRY OF NATURAL RESOURCES AND TEXACO, AND HE ADDED HE IS STILL HOPEFUL THE STUDIES WILL LEAD TO AN EXTENSIVE REVISION OF THE TAX STRUCTURE AND A MERELY MODEST INCREASE IN PRICE SO AS TO KEEP ECUADOREAN OIL PRICE-COMPETITIVE IN ITS USUAL MARKETS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 QUITO 01597 101958Z

(E) SEMBLANTES TOLD A FALSEHOOD WHEN HE SAID THAT CEPE HAS INVARIABLY BEEN SELLING AT PRICES IN EXCESS OF \$13.00 SINCE THE BEGINNING OF THE YEAR; ALTHOUGH HE MAY ACTUALLY THINK THIS IS THE CASE PERHAPS (BECAUSE HE HAS NOT BOTHERED TO CHECK SALES DOCUMENTS AVAILABLE TO HIS MINISTRY), WE ARE RELIABLY INTOYMED THAT ONLY TWO CEPE SALES SINCE JAN. 1 HAVE BEEN AT PRICES OVER \$13.00 PER BARREL, AND THOSE WERE WITH VERY GENEROUS CREDIT TERMS. WE DO NOT KNOW AT THIS TIME IF CEPE WILL BE ABLE TO SELL AT \$13.00 (FIRST BIDS AT THIS PRICE WILL BE DUE WITHIN THE NEXT FEW WEEKS), BUT WE EXPECT THAT ANY SALES AT OR ABOVE \$13.00 A BARREL WILL CONTINUE TO BE CONDITIONED ON VERY LIBERAL CREDIT TERMS AND DISCOUNTS.

(F) FINANCE MINISTER SANTIAGO SEVILLA, WHO HAS BEEN PLAYING AN ACTIVE ROLE IN THE COMMISSION STUDYING THE OIL PRICE INCREASE, WAS OUT OF TOWN WHEN SEMBLANTES' ANNOUNCEMENT WAS MADE, AND MAY WELL NOT HAVE BEEN GIVEN AN OPPORTUNITY TO CLEAR THE ANNOUNCEMENT IN ADVANCE. IF HE DID NOT CLEAR IT, HE CAN BE EXPECTED TO OPPOSE IMPLEMENTATION OF IT, SINCE HE GENERALLY HAS FAVORED REALISIM IN OIL EXPORT PRICING AND TOLD THE AMBASSADOR THAT THE GOE WAS PLANNING TO RAISE PRICES BY ONLY 7 PERCENT.

4. SEMBLANTES' NONSENSICAL ANNOUNCEMENT MAY HAVE BEEN PRECIPITATED BY THE ARREST OF CEPE MARKETING MANAGER RAMIRO ESTRELLA IN CARACAS WITH A SUITCASE CONTAINING \$25,000 IN CASH, PLUS A PUBLIC "EXPOSE" BY ONE OF THE LOCAL TELEVISION STATIONS CLAIMING THAT CEPE HAD LOST MILLIONS OF DOLLARS BY NOT IMPLEMENTING THE OPEC PRICE RISE--THE "EXPOSE" STRONGLY HINTED THAT SOME CUSTOMERS HAVE BEEN PAYING BRIBES TO CEPE OFFICIALS TO RETARD IMPLEMENTATION OF THE PRICE RISE.

CORR

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 10-Mar-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977QUITO01597  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770083-1241  
**Format:** TEL  
**From:** QUITO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770373/aaaacmgs.tel  
**Line Count:** 171  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 55f93dba-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 QUITO 1247  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 16-Nov-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3149816  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOE ANNOUNCES 13 PERCENT INCREASE IN PETROLEUM PRICE, BUT IMPLEMENTATION APPEARS UNCERTAIN  
**TAGS:** ENRG, EC  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/55f93dba-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009